

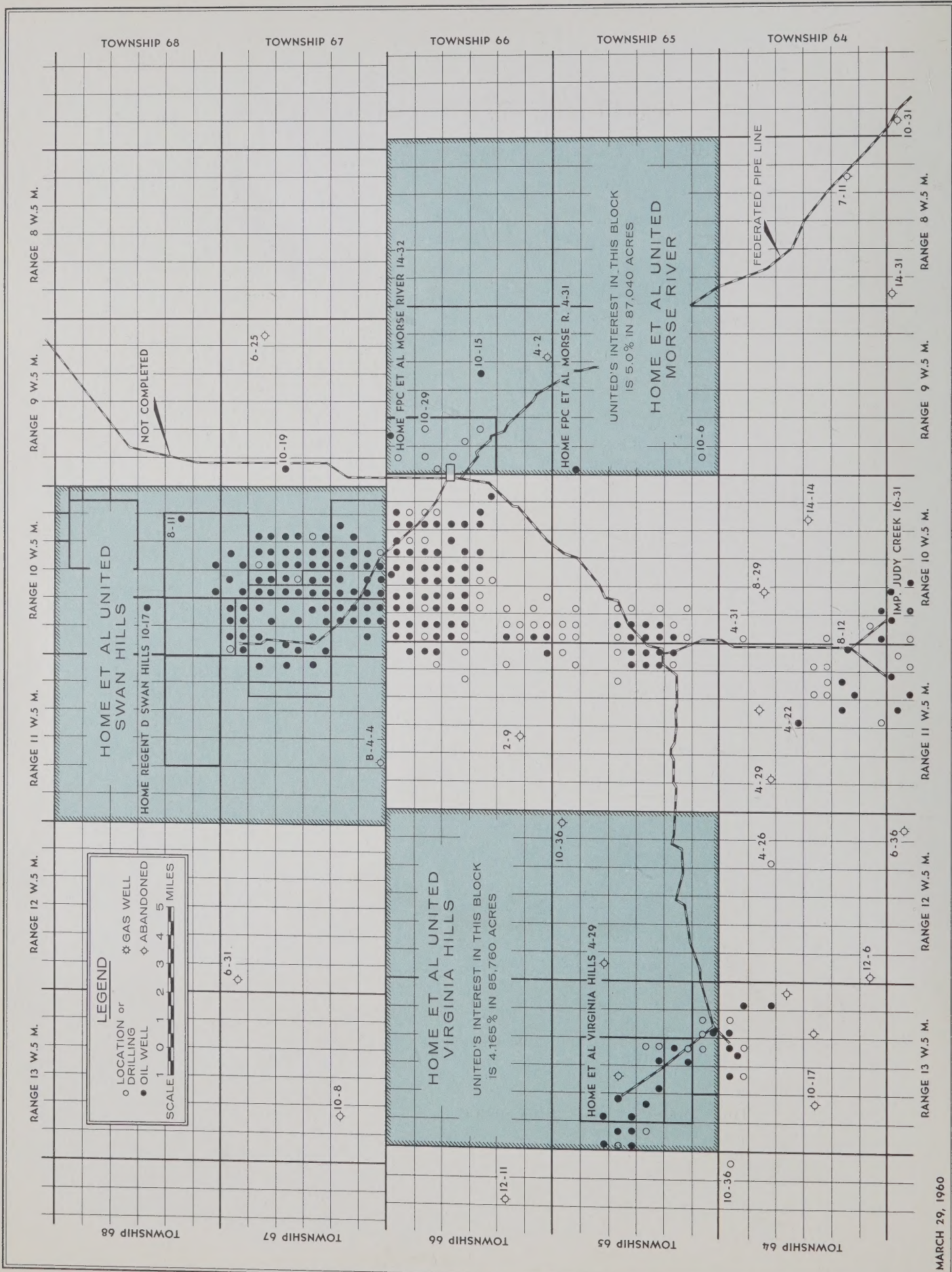
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UNITED OILS, LIMITED

annual report 1959



UNITED OILS, LIMITED

HEAD OFFICE: 304 Sixth Avenue West, Calgary, Alberta

Directors

R. A. BROWN, JR. _____ Calgary, Alberta
R. W. CAMPBELL _____ Calgary, Alberta
M. C. GOVIER _____ Calgary, Alberta
F. J. GREEN _____ Calgary, Alberta
H. J. HOWARD _____ Calgary, Alberta
B. MACKID _____ Calgary, Alberta

Officers

F. J. GREEN _____ Chairman of the Board
R. A. BROWN, JR. _____ President
N. D. McDERMID _____ Secretary
B. B. ROMBOUGH _____ Treasurer
R. B. COLEMAN _____ Assistant Secretary

Transfer Agents

CROWN TRUST COMPANY _____ Vancouver, B.C.
Toronto, Ontario
Calgary, Alberta

Registrar

CROWN TRUST COMPANY _____ Calgary, Alberta

Listings

TORONTO STOCK EXCHANGE
CALGARY STOCK EXCHANGE
VANCOUVER STOCK EXCHANGE

Auditors

RIDDELL, STEAD, GRAHAM & HUTCHISON

Solicitors

MACLEOD, McDERMID, DIXON, BURNS, LOVE & LEITCH

Bankers

THE CANADIAN BANK OF COMMERCE

UNITED OILS, LIMITED

TO THE SHAREHOLDERS

Your directors are pleased to submit this report on the progress made by your Company in 1959 which was highlighted by the following:

1. Development work in the Swan Hills field continued through 1959 and materially improved the Company's developed oil reserves.
2. Exploratory drilling carried out on the Morse River and Virginia Hills reservations resulted in important discoveries in both areas.
3. The natural gas processing plant at Nevis was completed and gas sales from the Nevis field to Trans-Canada Pipe Lines Limited started in December.
4. Your Company participated with Home Oil and associates in exploration in the Celi-beta Lake area of the Northwest Territories on which a gas strike was made in March, 1960.
5. Company acreage in the Pembina field continued to respond favorably to repressuring by water flood.

DEVELOPMENT AND EXPLORATION

In the Swan Hills field, it was the opinion of the operators that it should be developed on the basis of one well on each 320 acres. The Alberta Oil and Gas Conservation Board however ordered development on 160 acre spacing. This required that additional wells be drilled. An energetic drilling program was pursued and at year end there were 40 wells on production in Swan Hills.

On the Swan Hills reservation a successful exploratory well was completed in 10-17-68-10W5, approximately three miles north of the main body of the Swan Hills field.

United Oils' share of production from Swan Hills in 1959 was 65,945 barrels compared with 4,113 in 1958. With the completion of the 1959-60 winter drilling schedule, there will be 60 wells on production.

On the Morse River reservation, where United has a 5% interest in 92,160 acres, two successful wildcats have been completed as oil producers. These wells were located on the west side of the reservation six miles apart. The northern well, 14-32-66-9W5, was drilled in 1959 and completed early in 1960. The southern well, 4-31-65-9W5 was completed in January, 1960. Coming as they did after two dry holes to the east, these successes encouraged further drilling both in the exploratory and development categories.

A wildcat drilled on the south east corner of the Virginia Hills reservation was successful in finding 90 feet of net pay. This well was located on 4-2-65-13W5. As a result of this and a second success two miles northwest, a stepped-up development program has been instituted and 18 additional wells are scheduled for completion in 1960. United has a net interest of 4.1667% in the Virginia Hills reservation.

The Nevis gas field was discovered in 1952. A contract was negotiated with Trans-Canada Pipe Lines Limited and a processing plant built in 1959. United holds an 8.25% interest in the plant and 5.5% interest in the Nevis unitized field. The company anticipates income of \$52,000 from Nevis in 1960, rising each year until 1963 when it will reach approximately \$150,000 per year.

During the winter season two wells were drilled in the Celibeta area. The first proved to be dry but the second wildcat discovered natural gas in the Slave Point formation and flowed at the rate of 7,800,000 cubic feet per day. It was still being tested as this report was being prepared.

Several of your Company's wells in Pembina were subjected to severe penalties in production as a result of rapidly rising gas-oil ratios. To correct this condition pressure maintenance by water flooding the reservoir was used. The success of this operation resulted in a reduction in gas-oil ratios and an increase in productivity. However, allowables for Pembina declined in 1959 and the Company's production was 240,095 barrels compared with 266,020 barrels for the previous year.

The Company participated in drilling during 1959 as follows:

	Wells Drilled			
	Oil	Gas	Dry	Total
Development				
Gross	34	1		35
Net	2.42	.25		2.67
Exploratory				
Gross	2		4	6
Net09		.18	.27
Total				
Gross	36	1	4	41
Net	2.51	.25	.18	2.94

The gross and net well position of the Company by fields at December 31, 1959 was as follows:

Field	Gross Wells	Net Wells
OIL		
Pembina	64	23.6
Sundre	1	.5
Swan Hills	45	3.3
Virginia Hills	6	.2
	<u>116</u>	<u>27.6</u>
GAS		
Nevis	6	1.0
	<u>122</u>	<u>28.6</u>

The Company's land acquisitions during 1959 consisted of an interest ranging from 2.5% to 25% in 3,249 acres in the Province of Alberta, of which 2,560 acres were in the Swan Hills and Virginia Hills field. In addition, the Company joined with Home Oil and associates in a farmout agreement in which the Company obtained a 2½% interest in 1,256,016 reservation acres in the Northwest Territories. Exploration is now being conducted on certain of our Alaska lands which have been farmed out to other companies at a minimum of cost to your Company.

The Company's exploratory acreage as at December 31, 1959 is set out below:

AREA	P. & N.G. Leases		Reservations and Gas Licenses		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	71,388	13,378	365,760	16,746	437,148	30,124
Alaska	57,720	57,720			57,720	57,720
Northwest Territories	—	—	1,256,016	31,400	1,256,016	31,400
	<u>129,108</u>	<u>71,098</u>	<u>1,621,776</u>	<u>48,146</u>	<u>1,750,884</u>	<u>119,244</u>

RESERVES

A summary of the Company's reserves as at April 1, 1960 as prepared by McDaniel Consultants Ltd. is shown below with comparative figures for April 1, 1959*.

	April 1, 1960	April 1, 1959
CRUDE OIL RESERVES (BARRELS)		
Proven Developed	8,153,000	5,195,000
Proven Undeveloped	3,160,000	5,986,000
Probable Additional	13,196,000	12,318,000
	<u>24,509,000</u>	<u>23,499,000</u>
NATURAL GAS LIQUIDS (BARRELS)		
Proven Developed	215,000	99,000
Proven Undeveloped	208,000	288,000
Probable Additional	—	16,000
	<u>423,000</u>	<u>403,000</u>
Total Crude Oil and Natural Gas Liquids	<u>24,932,000</u>	<u>23,902,000</u>
NATURAL GAS (MCF)		
Proven Developed	13,420,000	8,010,000
Proven Undeveloped	13,000,000	22,900,000
Probable Additional	—	1,220,000
	<u>26,420,000</u>	<u>32,130,000</u>

The probable additional crude oil reserves shown on page 4 include 12,059,000 barrels as at April 1, 1960, which are predicated on the beneficial effects that may be obtained with the institution of pressure maintenance. The remaining crude oil reserves in this classification were estimated on the basis of probable additional field areas.

* The crude oil reserve estimates given for the Swan Hills field in the 1958 annual report were predicated on the then existing 320 acre development pattern. The Oil and Gas Conservation Board of Alberta did, however, on July 29, 1959, issue an order establishing 160 acre spacing pattern in this field. Certain proven developed crude oil reserves assigned as of April 1, 1959 would, as a result of this order, be classified in a proven undeveloped category. The previous report was therefore adjusted for this change in order that a proper comparison can be made.

FINANCIAL

Gross income during 1959 amounted to \$799,737 compared with \$696,532 in 1958. Oil production increased from 272,918 barrels in 1958 to 309,575 barrels in 1959, an increase of 13.4%. This increased oil production did not materially improve the Company's 1959 income because of a decline in crude oil prices early in the year.

The year's operations after providing \$242,483 for depletion and \$113,199 for depreciation, resulted in a loss of \$411,017.

Capital expenditures including dry hole costs were \$1,407,833 as compared with \$1,334,970 in the previous year.

HOME OIL COMPANY LIMITED

Your Company is the largest shareholder in Home Oil Company Limited, owning 828,906 Class B voting shares as at December 31, 1959. This holding represent 35.3% of the outstanding Class B shares of that Company. Because of the importance of your Company's interest in Home Oil Company Limited, we have included on page 11 a special report on its activities during 1959.

Respectfully submitted on behalf of the Board,



PRESIDENT.

Calgary, Alberta

April 4, 1960

UNITED OILS
(INCORPORATED UNDER THE
AND SUBSIDIARY

Consolidated Balance Sheet

(WITH COMPARATIVE FIGURES)

Assets		
	1959	1958
CURRENT ASSETS		
Cash	\$ 54,389	\$ 551,591
Accounts receivable	27,863	16,236
	<u>82,252</u>	<u>567,827</u>
INVESTMENT IN HOME OIL COMPANY LIMITED, at cost		
828,906 Class B shares	<u>6,530,070</u>	<u>6,530,070</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
Petroleum and natural gas leases and rights together with development and equipment thereon		
Producing	7,720,374	6,029,130
Less accumulated depletion and depreciation	(2,274,324)	(2,223,131)
Non-producing	<u>860,467</u>	<u>1,436,943</u>
	<u>6,306,517</u>	<u>5,242,942</u>
OTHER ASSETS	<u>17,542</u>	<u>14,698</u>
	<u><u>\$12,936,381</u></u>	<u><u>\$12,355,537</u></u>

The accompanying notes to financial statements

S, LIMITED

COMPANIES ACT OF CANADA)

Y COMPANY

as at December 31, 1959

S FOR THE PRIOR YEAR)

Liabilities

	<u>1959</u>	<u>1958</u>
CURRENT LIABILITIES		
Due to bank — demand loan (secured)	\$10,097,624	\$ 9,298,375
Accounts payable and accrued charges	140,120	5,566
Due to affiliated company	132,437	74,379
	<u>10,370,181</u>	<u>9,378,320</u>

CAPITAL STOCK AND DEFICIT

Capital stock		
Authorized		
10,000,000 shares of no par value		
Issued and fully paid		
8,485,104 shares	7,724,255	7,724,255
Deficit, per statement attached	5,158,055	4,747,038
	<u>2,566,200</u>	<u>2,977,217</u>

Approved on behalf of the Board:

D. A. Brown

Director

Max G. Givier

Director

\$12,936,381

\$12,355,537

an integral part of the above balance sheet.

UNITED OILS, LIMITED

AND SUBSIDIARY COMPANY

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 1959

(WITH COMPARATIVE FIGURES FOR THE PRIOR YEAR)

	<u>1959</u>	<u>1958</u>
INCOME		
Sale of oil and gas production	\$ 758,370	\$ 690,127
Other income	41,367	6,405
	<u>799,737</u>	<u>696,532</u>
EXPENSE		
Well operating expense	173,840	106,877
General and administrative expense	63,255	63,708
Non-producing property expense	25,724	17,202
Surrendered leases	4,678	59,629
Exploration and dry hole costs	47,330	35,784
Depletion of producing properties	242,483	439,493
Depreciation of equipment	113,199	101,929
Interest expense	540,245	523,432
	<u>1,210,754</u>	<u>1,348,054</u>
LOSS for the year	<u>\$ 411,017</u>	<u>\$ 651,522</u>

The accompanying notes to financial statements are an integral part of the above statement.

Consolidated Statement of Deficit

FOR THE YEAR ENDED DECEMBER 31, 1959

BALANCE as at January 1, 1959	\$4,747,038
Add: Loss for the year	411,017
BALANCE as at December 31, 1959	<u>\$5,158,055</u>

The accompanying notes to financial statements are an integral part of the above statement.

UNITED OILS, LIMITED
AND SUBSIDIARY COMPANY

Notes To Financial Statements

AS AT DECEMBER 31, 1959

Note 1 Accounting Policies

Exploration expenses are charged to income as incurred. Lease bonus acquisition costs are capitalized and the carrying charges of both producing and non-producing properties are charged to income. The capitalized cost is charged to income if a lease is surrendered. The cost of drilling a productive well is capitalized and the cost of an unproductive well is charged to income when determined to be dry. The cost of producing leases and drilling costs of producing wells are depleted using the unit of production method based upon estimated recoverable quantities of oil and gas as determined by the Company's engineers.

Note 2 Executive Remuneration and Legal Fees

In arriving at the loss for the year the following charges were included:

Executive remuneration	\$7,200
Directors' fees	3,600
Legal fees	200

UNITED OILS, LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of United Oils, Limited and its subsidiary company as at December 31, 1959 and the related consolidated statements of income and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

We have obtained all the information and explanations we have required and, in our opinion, the accompanying consolidated balance sheet and consolidated statements of income and deficit were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and present fairly the financial position of United Oils, Limited and its subsidiary company as at December 31, 1959 and the results of their operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the Companies.

RIDDELL, STEAD, GRAHAM & HUTCHISON

Chartered Accountants.

Calgary, Alberta,
March 16, 1960

HOME OIL COMPANY LIMITED

The following highlights of the progress of Home Oil Company Limited in 1959 have been summarized from that company's annual report:

The Company's ratio of discoveries to wildcats drilled was the best on record. Federated Pipe Lines Ltd., which is owned 50% by the Company, was rapidly expanded into new fields. The Cremona Pipeline Division enjoyed its most successful year to date. The Carstairs gas plant, owned 39% by Home Oil and operated by the Company, was largely completed by the end of 1959 and went on stream on February 27, 1960.

Of the 18 wildcats in which Home Oil participated in 1959, five were commercially successful. Early in 1960, it was successful in completing an exploratory test seven miles north of the Carstairs gas field. This well found gas production in the Elkton and flowed at the rate of 7,790,000 cubic feet per day in drill stem test.

Federated Pipe Line, which serves the area between Swan Hills and Edmonton, extended its lines to Virginia Hills, Sarah Lake and Judy Creek fields in 1959. Additional extensions are planned for 1960. The line averaged 5,185 barrels per day of throughput in 1959 but by February, 1960, it was handling 16,000 barrels per day. Pumps are being installed to raise the line's capacity above the 20,000 barrels it can handle by gravity flow.

The Carstairs gas processing plant was built at a cost of \$3,700,000 and has an installed capacity of 75 million cubic feet per day. Under contract with Trans-Canada Pipe Lines Limited Home Oil will sell 3.7 billion cubic feet of gas from Carstairs in 1960. By 1963 this figure will reach 6.4 billion cubic feet. In addition to natural gas, the Carstairs field will yield 37 barrels of condensate per million cubic feet of gas. Home's share in 1960 is estimated at 138,000 barrels of condensate with production rising to 200,000 barrels in 1963.

Home Oil has an interest of 15% in the Nevis gas processing plant. Its share of contracted production from this plant, during its first year of operation in 1960 will approximate 1 billion cubic feet and rise to 1.2 billion cubic feet by 1963.

FINANCIAL

Home Oil had gross income of \$7,893,375 in 1959 as compared with \$7,521,794 in 1958. Income before capital write-offs for depreciation and depletion, surrendered leases and dry hole costs was \$2,271,422 in 1959 as compared with \$2,853,474 in 1958. After deducting these items, there was a loss of \$762,822 for the year 1959.

EXPLORATION AND DRILLING

In the year ended December 31, 1959, Home Oil drilled or participated in the drilling of 57 wells. Home's net interest was 20 wells of which 11 were oil wells, three gas wells, and six dry and abandoned.

Reference is made to the remarks on exploration appearing in this report as to the operations conducted in the Swan Hills, Virginia Hills and Morse River areas of Alberta. Home's interest in Swan Hills reservation is 31.25%; in the Virginia Hills reservation is 20.83% and 40% in the Morse River reservation.

In addition to exploratory work in the Virginia Hills and Morse River areas, Home has been actively engaged in exploration in the Celibeta Lake area of the Northwest Territories, in the Enchant area of southeastern Alberta and in other localities.

ACREAGE HOLDINGS

At December 31, 1959 Home Oil held varying interests in exploration acreage in Canada and the United States of America amounting to 1,659,856 net acres in a total of 4,725,258 gross acres. This acreage is in the form of petroleum and natural gas reservations and permits, gas licenses and petroleum and natural gas leases.

RESERVES

The reserves of Home Oil as at April 1, 1960 are estimated by McDaniel Consultants Ltd. as follows:

	Proven Developed	Proven Undeveloped	Probable Additional	Total
Crude Oil (bbls.) -----	55,528,000	17,204,000	84,370,000	157,102,000
Natural Gas Liquids (bbls.) --	7,972,000	4,241,000	659,000	12,872,000
Natural Gas (mcf) -----	317,950,000	145,020,000	32,029,000	494,999,000

The probable additional crude oil reserves shown above include 79,715,000 barrels which are predicated on the beneficial effects that may be obtained with the institution of pressure maintenance. The remaining crude oil reserves in this classification were estimated on the basis of probable additional field areas.

PRODUCTION

The following table sets forth the crude oil, natural gas liquids and natural gas production of Home Oil for the years 1959 and 1958. The natural gas liquids and natural gas figures represent actual sales after production and processing losses.

	1959	1958
Crude Oil (bbls.) -----	2,637,801	2,471,111
Natural Gas Liquids (bbls.) -----	47,622	60,273
Natural Gas (mcf) -----	6,095,763	5,854,536

TRANS-CANADA PIPE LINES LIMITED

Home Oil, as at December 31, 1959 held 1,044,073 common shares and \$3,356,800 principal amount 5½% Subordinated Convertible Income Notes due 1987 convertible into 223,786 common shares of Trans-Canada Pipe Lines Limited after July 1, 1964.

FINANCING

During the past several years Home Oil has financed its expansion out of cash flow and through bank loans which amounted to \$31,453,558 at the end of 1959. Since the year end, Home has sold publicly \$20,000,000 (Canadian) 6% Convertible Subordinated Debentures, convertible into a maximum of 740,741 shares of Trans-Canada Pipe Lines Limited owned by the Company. When Home Oil took over the holdings of certain original investors in Trans-Canada Pipe Lines Limited, it assumed their obligations including their rights to purchase a total of \$7,140,000 5½% Subordinated Convertible Income Notes. These notes are convertible into 476,000 common shares at \$15 per share in 1964. As Home Oil holds 1,044,073 shares at present, it decided to utilize Trans-Canada shares in the conversion feature of its new debenture issue.

Early in 1960, Home Oil also completed the private sale of \$10,000,000 (U.S.) 6½% Secured Bonds.

The completion of the financing will substantially eliminate year end bank debt. However, it is anticipated that capital expenditures resulting from the Company's successful exploration program will continue at a fairly high level in 1960, necessitating further short term borrowings.

